

MINUTES
MEETING OF THE
ILLINOIS STATE BOARD OF INVESTMENT
FRIDAY, APRIL 6, 2012 – 9:15 A.M.

Present: Board Members

Roderick Bashir
Devon Bruce
Michele Bush
John Casey
James Clayborne
Thomas Hoffman
Dan Rutherford, via telephone

Staff

William Atwood
Johara El-Harazin
Adanna Ene
Timothy Kominiarek
Scott Richards
Linsey Schoemehl
Lorna Scott
Katherine Spinato
Alise White

Guests

State Retirement Systems
 Tim Blair
Office of the State Treasurer
 Bridget Byron. Maureen Leyden
Marquette Associates
 Brian Wrubel, Nichole Roman-Bhatty, Dave Smith
Franklin Park
 Brad Atkins
Service Employees International Union
 Edgar Hernandez
Unite Here
 Jim Baker
Loop Capital
 Angela Myers

Absent: Board Member

Judy Baar Topinka

ROLL CALL

Chairman Bruce called the meeting to order at 9:15 a.m. The Secretary called the roll and noted that a quorum was present. Ms. Bush moved to approve phone participation by Treasurer Rutherford. Mr. Bashir seconded and the motion passed unanimously.

COMMUNICATIONS

Chairman Bruce reported that Fred Montgomery had resigned from the Board and a copy of a Resolution of Appreciation was distributed for adoption.

The Chairman stated that he had worked with Staff regarding corporate governance issues and had a very productive meeting with Apache Corp. Chairman Bruce further stated that correspondence summarizing the meeting had been received from the CEO of Apache Corp. and distributed to all Board Members. (Official minutes contain attachment.)

ELECTION OF OFFICERS

Chairman Bruce stated that due to the resignation of Mr. Montgomery, an election of a Vice Chairman was in order. Senator Clayborne moved to nominate Roderick Bashir as Vice Chairman. Judge Hoffman seconded. There being no further nominations, Mr. Bashir was elected to serve as Vice Chairman.

Chairman Bruce further called for nominations for the Member at Large on the Executive Committee, which was previously held by Mr. Bashir. Mr. Bashir moved to nominate Michele Bush. Judge Hoffman seconded. There being no further nominations, Ms. Bush was elected to serve as Member at Large.

REPORT OF THE CHAIRMAN

The Chairman apologized for the necessity of having to reschedule the regularly scheduled meeting, stating that it was unavoidable due to Members' schedules. Further, he stated that future meeting would resume with informative, educational presentations from investment managers.

Chairman Bruce commended Ms. Schoemehl on the recent Chicago Tribune article on corporate governance.

MINUTES OF PREVIOUS MEETING

Ms. Bush moved to approve the minutes of the Board meeting held December 16, 2011, in the form previously submitted. Mr. Bashir seconded and the motion passed unanimously.

REPORT OF STANDING COMMITTEES

Executive Committee

Director Atwood reported that the Executive Committee had met February 10, 2012 and had considered a deferred compensation hardship appeal.

Audit & Compliance Committee

Ms. Bush stated that the Audit & Compliance Committee had met prior to this meeting and reported the following actions:

- The minutes of the Audit and Compliance Committee meetings held December 16, 2011 and February 27, 2012, were approved.
- Ms. Spinato reported there were no exceptions to report to the Staff's Monthly Personal Transactions Report through December 2011.
- The Commission Recapture Report for the quarter ending December 2011 was reviewed and approved.
- The Records of Vouchers for the months of October, November and December 2011 were reviewed and approved.
- The Committee approved third-party reimbursement for travel requests for Mss. El-Harazin and Schoemehl.
- The Committee reviewed and accepted the report on placement agent contacts for FY 2012 3rd Quarter.
- Ms. Schoemehl requested appointed Board Members to submit quarterly timesheets.
- The Committee reviewed two ex parte communication disclosures.
- The Chairman reported on the February 27, 2012 meeting and reviewed the recommendations of Chairman Bush relating to ethics and compliance analysis resulting from that meeting.

Judge Hoffman moved to approve and ratify the actions of the Audit & Compliance Committee as outlined above. Mr. Bashir seconded and the motion passed unanimously.

DEFERRED COMPENSATION

Report of Consultant – Investment Manager Performance Review

Ms. Roman-Bhatty, Marquette Associates referred the Board Members to the "Illinois State Board of Investment Deferred Compensation Executive Summary" for the 3rd

quarter December, 2011 and distributed an updated report dated February 2012. (Official minutes contain attachments.)

Ms. Roman-Bhatty reviewed the performance and outlined the Consultant and Staff recommendations as follows:

- The addition of three index funds; mid-cap, small-cap and international.
- Moving the assets in LSV Value, Ariel and Northern Trust Small-Cap Value Funds to separate accounts of the same fund type with more transparency, which are lower cost investment vehicles at a cost savings of approximately \$700,000.
- Begin working with the Recordkeeper to reinstitute a per participant charge to cover the deficit between current expenses and reduced revenue sharing.

Detailed discussion ensued regarding mutual funds vs. separate accounts in the Deferred Compensation Plan. Judge Hoffman recommended that the use of separate accounts rather than mutual funds be communicated to Plan participants prior to being instituted.

Following the lengthy discussion, Mr. Bashir moved to approve conducting a search to add three index funds to the deferred compensation plan, as outlined above. Senator Clayborne seconded and the motion passed unanimously.

Mr. Bashir moved to approve the recommendation of Consultant and Staff to move the assets in LSV Value, Ariel and Northern Trust Small-Cap Value Funds to separate accounts of the same fund type as outlined in the report. Senator Clayborne seconded. The motion passed with Judge Hoffman and Treasurer Rutherford voting nay.

Director Atwood stated that no action was currently needed regarding reinstituting a per participant charge and Consultant and Staff would report back to the Board at a future meeting.

Consideration of Hardship Appeals

Chairman Bruce stated that three Hardship Appeal requests had been received and copies of the recommendations of the hearing officer were previously distributed.

Following review by Ms. Schoemehl, Ms. Bush moved to approve and accept the recommendation of the Hearing Officer and approve a distribution of \$767.77 in the case of Nancy Dial (H/S 12-007). Mr. Bashir seconded and the motion passed unanimously. (Official minutes contain attachment.)

Following review by Ms. Schoemehl, Ms. Bush moved to approve and accept the recommendation of the Hearing Officer and uphold the decision of the Hardship Committee to deny the request of Michele Kendrick (H/S 12-020). Judge Hoffman seconded and the motion passed unanimously. (Official minutes contain attachment.)

Following review by Ms. Schoemehl, Mr. Bashir moved to approve and accept the recommendation of the Hearing Officer and approve a distribution of \$1,239.00 in the case of Valda Carter ((12-043). Ms. Bush seconded and the motion passed unanimously. (Official minutes contain attachment.)

In response to an inquiry by Chairman Bruce, Ms. Schoemehl reported that Consultant and Staff had been working with T. Rowe Price regarding enrollments issues in instituting the Loan Program and that the Loan Program would commence by January 1, 2013.

Judge Hoffman excused himself from the meeting due to a scheduling conflict with the Judges Retirement System meeting.

REPORT OF CONSULTANT – MARQUETTE ASSOCIATES

Investment Performance Report – December 2011 and February 2012 Interim Report
Mr. Wrubel reported that the Investment Performance Report for the quarter ending December 2011 had previously been distributed. Mr. Wrubel distributed the Flash Report for February 2012. (Official minutes contain attachment.) Mr. Wrubel distributed copies of an updated Real Estate report. (Official minutes contain attachment.)

Chairman Bruce expressed his desire to refer to only one report during the meeting.

Mr. Wrubel reviewed the reports and answered questions posed by Board Members.

Director Atwood referred the Members to a memorandum “Wellington Global Bond” dated March 12, 2012. The Director reviewed the memorandum and stated that Consultant and Staff were recommending an amendment to the Wellington investment guidelines allowing investment in US Treasuries and US Treasury futures up to a market value not to exceed 10% of the total portfolio market value. Following review and discussion, Mr. Bashir moved to approve the investment guidelines for Wellington Global Bond as outlined in the memorandum. Ms. Bush seconded and the motion passed unanimously. (Official minutes contain attachment.)

PRIVATE EQUITY

Chairman Bruce welcomed Brad Atkins, Franklin Park to the meeting. Mr. Atkins stated that recommendation reports for Riverside Fund V, L.P. and Court Square Capital Partners III L.P. were previously distributed. (Official minutes contain attachment. Mr. Atkins reviewed the reports stating that Consultant and Staff were recommending a \$20 million commitment to Riverside Fund V, L.P. and a \$20 million commitment to Court Square Capital Partners III L.P.

Ms. Schoemehl reported that there were no political contributions or material ownership disclosures to report.

Mr. Casey moved to approve commitments of \$20 million to Riverside Fund V, L.P. and \$20 million to Court Square Capital Partners III L.P. as recommended by Consultant and Staff. Mr. Bashir seconded and the motion passed unanimously.

REPORT OF THE DIRECTOR

Chairman Bruce stated that the Board would go into Executive Session to discuss specific investment manager contracts (5 ILCS 120/2(c)(7)) and current Board litigation (5 ILCS 120/2(c)(11)). Mr. Bashir moved to go into Executive Session for the above-stated purposes. Ms. Bush seconded and the motion passed unanimously.

Guests and Staff were excused from the meeting with the exception of Director Atwood, Ms. Schoemehl, Ms. Spinato, Mr. Richards, and Marquette representatives.

Mr. Bashir moved to return to the Open Session. Senator Clayborne seconded and the motion passed unanimously.

Following Executive Session, Mr. Bashir moved to approve the minutes of the Executive Session meetings held December 16, 2011, as presented in the Closed Session. Ms. Bush seconded and the motion passed unanimously.

Matters Relating to Existing Managers

Director Atwood stated that these items were discussed in Executive Session.

Watch List

Mr. Richards reported that the Watch List was previously distributed and reviewed. (Official minutes contain attachment.)

Discussion of Hedge Fund Portfolio Structure

The Director referred to his memorandum "Hedge Fund of Funds Portfolio" dated January 11, 2012. (Official minutes contain attachment.)

Matters Relating to Existing Legal Counsel

Ms. Schoemehl reviewed the memorandum "Matters Relating to Existing Legal Counsel" dated March 6, 2012, stating that ISBI was notified that two primary attorneys at Winston & Strawn had departed. Following discussion, it was the consensus of the Board Members to contact Winston & Strawn and request that fees be renegotiated and request that ISBI work primarily with Emily Peterson. Ms. Schoemehl stated that she would monitor and report back to the Board Members at the September meeting.

Legal Matters

Director Atwood stated that legal matters were discussed in Executive Session.

Quarterly Financial Statements

Director Atwood stated that the Quarterly Financial Statements for September 30, 2011 were previously distributed. Mr. Bashir moved to approve the Financial Statements for the quarter ended September 30, 2011. Mr. Casey seconded and the motion passed unanimously. (Official minutes contain attachment.)

Legislative Update

The Director reported that the Legislative Session was relatively quiet and there was nothing to report.

REPORT OF ANY BOARD MEMBER

None.

UNFINISHED BUSINESS

None.

NEW BUSINESS

Chairman Bruce again apologized the rescheduling the meeting and the conflicting with the Judges Retirement System meeting.

The Chairman reported that he had been the guest speaker at the City Club representing ISBI.

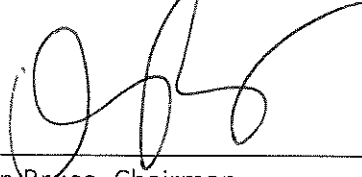
NEXT MEETING AND ADJOURNMENT

Chairman Bruce stated that the next meetings of the Audit & Compliance Committee and Board were scheduled to be held Friday, June 15, 2012 at 9:00 a.m. and 9:15 a.m., respectively. Further, the Chairman stated that there would be an Investment Policy Committee meeting schedule for Thursday, June 14, 2012, late afternoon. All meeting were scheduled to be held in Springfield, IL.

Chairman Bruce reported that an Emerging Manager Committee meeting was scheduled for Friday, April 27, 2012 and notices would be sent with details.

At 10:50 a.m., there being no further business to come before the Board, Mr. Bashir moved to adjourn. Mr. Casey seconded and the meeting was adjourned.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Devon Bruce', written over a horizontal line.

Devon Bruce, Chairman
Illinois State Board of Investment

A handwritten signature in black ink, appearing to read 'Roderick A. Bashir', written over a horizontal line.

Roderick Bashir, Vice Chairman
Illinois State Board of Investment